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A Tale of Two Transitions: Cuba and Viet Nam after the Collapse of the Soviet Union

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Introduction

At the end of the 1980s, the collapse of the Soviet Union brought forth drastic economic adjustments in some thirty countries (over half of which had not previously been independent). For almost all of the countries, the adjustments would be in the context of a fundamental change in economic, political and social organisation, with a substantial minority combining this with debilitating civil wars, separatist conflicts, or armed border disputes. In the short run, the governments of these countries faced an immediate crisis of the balance of payments. With a few exceptions, the trade of these countries had been concentrated within COMECON; in the cases of the former Soviet Republics trade had been largely internal to the USSR. Thus, all but a few of the countries (e.g., China) encountered a common problem, to convert from COMECON trade to trade in 'hard' currencies.

This paper considers the process by which, in the short-run, two countries, Cuba and Viet Nam, adjusted their balance of payments position in the aftermath of the collapse of the Soviet Union. Of the underdeveloped countries that were a part of the Soviet bloc (except for North Korea), Cuba and Viet Nam implemented the most extensive and comprehensive forms of central planning. This is in contrast to the nominal central planning in several African countries, which was largely form rather than essence. While planning may not have covered the entire economy in either country, the state controlled external trade in both cases. Therefore, the transition to a hard currency trading regime represented a fundamental readjustment in both Cuba and Viet Nam.

The analysis of the transition to new trading regimes in Cuba and Viet Nam takes three parts. First, the balance of payments crisis suffered by each country is placed in context, in comparison to other countries of the relevant region, and in comparison to other centrally planned states. This is followed by sections that deal with Cuba's adjustment, then that of Viet Nam. The conclusion is reached that both countries adjusted with relative success, compared to other centrally planned states, and compared to countries in their region.

The Crisis in Context

The collapse of the Soviet Union resulted in an economic crisis for the countries within the Soviet training system, which took the immediate form of a balance of payments crisis. This balance of payments crisis can be distinguished analytically from the dismantling of mechanisms of central planning, especially since in almost every case, when the latter occurred, it worsened, rather than eased the former. Whatever else transition to market regulation might have achieved, it did not, in the short run, contribute to closing trade gaps; on the contrary, trade liberalisation tended to provoke an increased flow of imports, while the export response was at best sluggish.

Prior to considering the consequences for Cuban and Viet Nam of the end of the Soviet trading system, the relevant differences between the two countries need be noted. On the eve of the collapse of the Soviet Union, Cuba was one of the more developed countries of Latin America in terms of social indicators. While calculations of per capita income are sensitive to the price set used, any reasonable measure implies that per capita income in Cuba was of the order of ten times that of Viet Nam. While Cuba was perhaps eighty percent urban and twenty percent rural in 1990 (depending on the definition of an urban area),[1] the proportions for Viet Nam were the reverse. Both countries suffered from economic and political sanctions by the United States, but after 1990 these were of minor importance for Viet Nam. For Cuba, on the other hand, the negative impact of sanctions may well have increased in the 1990s, with the Helms-Burton act particularly important.

The relevance of comparing two countries so different is that each pursued an adjustment strategy substantially different from that promoted by the Western Powers and the international financial institutions. By contrast, in Central Europe[2] and Russia adjustment was based upon ‘Washington Consensus’ macroeconomic policies, including rapid trade liberalisation, deregulation of capital markets, privatisation, and demand compression. For the Asian states of the former Soviet Union strategies were more mixed, from the highly liberalising Kyrgyz Republic, to relatively non-liberalising Uzebekistan (Weeks 1997).[3]

In order to assess the severity of the adjustment problem, Table 1 provides the basic indicators for Cuban and Viet Nam (with GDP growth shown graphically in Figure 1). Here and below, the discussion will be in terms of two time periods, pre- and post-collapse of the Cold War trading regimes (1986-1989 and 1990 onwards). The economic performance of the two countries was quite different before the collapse of the Soviet Union. While Cuba’s growth was quite modest, averaging less than two percent per annum, Viet Nam grew at a relatively robust five percent. Viet Nam’s economic performance cannot be explained by a putative reform process in the second half of the 1980s, since GDP growth during 1980-1985 was slightly higher (Trâ’n Hoàng Kim 1996, p. 209).

In the four years following the collapse of the Soviet Union (1990-1993), the Cuban economy suffered a catastrophic decline, towards forty percent, with each year’s decline exceeding the previous. By striking contrast, Viet Nam’s growth rate increased, to an average of seven percent annually, compared to five percent for the previous four years. The proximate cause of the difference is obvious: during 1990-1993 Viet Nam’s trade gap fell to near zero (about one percent of GDP), while Cuba’s, though lower than previously, averaged seven percent of GDP. The statistics in Table 1 tell a simple stylised story: Cuban policy makers found themselves forced to narrow the trade gap through import compression via contraction of the economy; Viet Nam closed the trade gap through export growth.

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1 For example, the communities in Cuba associated with sugar refineries should be considered urban in this context, though populations were small for many of them.

2 ‘Central Europe’ refers to the independent states of the Soviet bloc: Albania, Bulgaria, Czechoslovakia (latter the Czech Republic and Slovak Republic), Hungary, Poland, and Romania. The German Democratic Republic disappeared into a greater Germany. ‘Eastern’ Europe is used to refer to the European countries formerly part of the Soviet Union (Armenia, Belarus, Estonia, Georgia, Latvia, Lithuania, Moldova, and Ukraine). Falling into a category of their own are the European states formerly part of Yugoslavia: Croatia, Macedonia, Slovenia, Serbia/Bosnia.

3 For a useful, though highly subjective ‘league table’ of liberalisers, see World Bank (1996, p. 14).

Several structural factors account for the different paths to balance of payments stability. The first is shown in Figure 2. Before the collapse of the Soviet trading system, Viet Nam's economy was quite closed to international trade, with the average of exports and imports accounting for less than ten percent of GDP. From this low base, it was possible to expand exports dramatically in the short run, as discussed below. On the other hand, trade accounted for over one-third of national output in Cuba prior to the crisis, a ratio disproportionately high even when one accounts for size and development of the economy. Thus, on a purely numerical basis, the possibility that Cuba could dramatically increase its exports was considerably less than for Viet Nam. Second, while both countries formally suffered from a trade embargo with the United States, the associated sanctions were considerably less effective for Viet Nam. By the early 1990s, Japan and several European Union countries were prepared to ignore US pressure and substantially increase their trade with Viet Nam. Perhaps the single most important element in stimulating trade between these countries and Viet Nam was the putative discovery of large reserves of natural gas off the southeast coast of the country. In addition, and unlike in Latin America, several of Viet Nam's proximate neighbours (especially Singapore)[4] increased bilateral trade, as well as direct investment. At the same time, US sanctions against Cuba made expanding hard currency trade quite difficult.

The effect of these differences was an exponential growth of Vietnamese exports after 1990, while Cuban exports declined continuously during 1990-1993. By 1996, trade as a share of GDP in Viet Nam exceeded Cuba's at its 1989 peak, and during 1990-1993 Cuba trade had fallen almost to Viet Nam's pre-1990 level. Figure 3 shows the trade deficits of the two countries, which move in a similar manner. The main difference was the very quick closure of the Vietnamese gap, to near zero during 1990-1992, compared to a slower adjustment in Cuba. After 1994, the trade gaps for both increased, reflecting a more sustainable situation, based on capital inflows in the case of Viet Nam, and earnings form 'invisibles' in the case of Cuba.

In order to evaluate the adjustment to balance of payments pressure, it is useful to assess the severity of the economic crisis potentially faced by each country in 1990. Table 2 compares Cuba and Viet Nam to the countries of Central and Eastern Europe (CEE) and the former Soviet Union (ex-SU). During the pre-crisis years, 1986-1989, the average growth rate of the CEE countries was just over two percent, and of the ex-SU countries 3.4 percent (see Figure 4). By comparison, Cuba's growth was considerably inferior and Viet Nam's substantially better. During the crisis years, 1990-1993, the twenty-one CEE and ex-SU countries suffered severe declines, with the single exception of Albania (whose collapse would come in the late 1990s). Inspection of the table shows that the division of the countries is not merely geographical, for the average decline of the ex-SU states was almost three times that of the CEE countries. Further, the greatest decline for the CEE countries was minus 8.5 percent annually for Bulgaria, and only four of the fourteen ex-SU countries had growth declines less than this. A statistical exercise that tests for the difference in growth rates shows that during 1990-1995, the ex-SU states had growth rates over eight percent lower than for CEE countries, significant at less than one percent (see Weeks 1997, pp. 4-6).

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4 Some of the trade with Singapore was via local subsidiaries of US corporations.

There are at least two important structural factors explaining the substantial differences in growth declines between the CEE and ex-SU countries. First, the rates of GDP decline across the twenty-one countries are negatively related to per capita income (*Ibid*., Table 2). The ex-SU states had income per head considerably lower than for the CEE countries, with the exception of Russia itself and the Baltic states. This tendency, for the countries with higher per capita income to perform better over the period, might be explained by relative ineffectiveness of 'shock therapy' policies to relatively less developed economies. Mosley, among others, has argued that the liberalisation and deregulation policies of structural adjustment programmes in market economies are more likely to improve economic growth the higher is the level of development of the adjusting country (Mosley 1990). Drawing on the work of Fei and Ranis (1988), he argues that the early stages of development tend to be characterised by policies of intervention, including import substitution, which shifts to an outward, export orientation as industrialisation increases. The relative underdevelopment of markets in such countries limits the ability of those markets to transmit price incentives that such follow from liberalisation.

Second, institutional characteristics of the ex-SU states provided major obstacles to adjustment to a market-regulated system. These countries were in most cases more closely integrated to the Soviet Union in trade than for those in the CEE group. Perhaps more important, the trade was organised as internal commerce, without the institutions for managing trade (see discussion by Griffin, 1995, Chapter 2). This rather obvious and trivial point implies a second, more general one: that after independence these countries had to create a mechanisms of economic management for activities which previously had been carried out in Moscow or by local functionaries of the central government. Thus, in addition to the disruption associated with the shift to market regulation, the former states of the Soviet Union found themselves lacking key institutions of economic management.

In this context, one can note that the decline of the Cuban economy during 1990-1993 was more than double that for the CEE group, but less than for the ex-SU states. This quantitative intermediate position of Cuba might be explained by reference to the two points discussed above. In terms of per capita income, it was closer to the ex-SU states, though markets had been highly developed before the revolutionary seizure of power. Because of this underdevelopment and the small size of the economy, there was relatively little production of capital goods and intermediate products for industry. This greatly restricted the technical potential for substitution of domestic inputs for imported products. More important, Cuba's trade has greater concentrated with the Soviet Union than for most of the seven CEE countries. As to be expected, the CEE countries with the smallest declines during 1990-1993 were tended to be those with the least Soviet trade (e.g., Albania and Poland).

In summary, Cuba's decline was substantially greater than for the CEE countries, and at about the median point for the ex-SU countries. In contrast, Viet Nam would seem from another world: while the CEE countries declined at an average of more than four percent and the ex-SU countries at twelve percent, Viet Nam *grew* at seven percent. This difference was despite the extremely low development of the economy and an overwhelming concentration of trade with the Soviet Union before 1990. Explanation of this phenomenal performance is discussed to a subsequent section. Returning to discussion of Cuba, Table 2 reveals a further important relationship. Though Cuba's comparative performance during 1990-1993 was mediocre at best, and perhaps more accurately described as a collapse, the country's recovery during 1994-1997 exceeded that of thirteen of the twenty-one CEE and ex-SU countries. Indeed, it had a growth rate above four of the seven CEE countries, This was the case even though those countries received considerable foreign direct investment (especially Hungary) and concessionary capital inflows from the International Monetary Fund, the European Development Bank, the World Bank, and bilateral lenders (e.g., Germany and the United States). One can only speculate about the counterfactual: what would have been Cuba's post-crisis recovery had it had access to international lending and the absence of sanctions that blocked foreign investment?

Cuba's Crisis and Adjustment

The adjustment process in Cuba occurred in the context of a severe crisis of the external sector. The severity of the crisis is suggested in Table 3, which provides growth comparisons between Cuba and other Latin American countries from 1986 through 1997. During 1986-1989, Cuba's GDP growth rate was below the Latin American average by almost a percentage point. Perhaps more relevant in terms of social welfare, *per capita growth in Cuba was above the average*, exceeding that of twelve countries. This highlights the severity of the decline during 1990-1993, when Latin American per capita income was virtually constant, but Cuba's fell by over ten percent annually. This catastrophic decline makes performance in the subsequent period all the more striking: Cuban per capita income rose by over three percent per year, while for the other Latin American countries the increase was more than a percentage point less.

Tables 4-6 provide statistics to judge how impressed one should be by the Cuban recovery of 1994-1997. The pressing short-term problem for the Cuban government was to close the trade gap. The seriousness of the problem can be assessed by comparing the Cuban trade gap with that of other Latin American countries. During the pre-crisis period, Cuba's trade gap averaged over twelve percent of GDP. If one excludes the Dominican Republic and Panama, both of which had large trade deficits for structural reasons, only the Nicaraguan and Salvadorean deficits approached Cuba's in size. Of course, this was partly the result of import-compression throughout Latin America during the mid-1980s, associated with the Washington Consensus approach to debt servicing. Still, in the Latin American context, the Cuban deficit was extremely large in the late 1980s, exceeded only by the deficits in two war-affected countries. The qualifier, 'in the Latin American context', is quite important. The Cuban deficit was not notably large by comparison to those in many sub-Saharan countries, for whom deficits in excess of twenty percent of GDP were not uncommon (Weeks 1998). The deficit was sustained in whole or part, before 1990, by concessionary lending ('foreign aid') from the Soviet Union, explicit and implicit. The implied level of assistance was quite high by Latin American comparison, but not by African comparison. For example, during 1990-1994 seven of the twenty Eastern, Central and Southern African countries received concessionary aid in excess of twenty percent of GDP (Weeks *ibid*.).

External finance for the balance of payments was quite important for several Latin American countries, as Table 5 shows. Without entering into the debate over the size of Soviet aid to the Cuban economy, we see from Table 5 that during 1986-1989, four Latin American countries received IMF and World Bank loans as a proportion of GDP equal to or greater than Cuba's trade deficit. During the 1990s, when import compression was forced upon the Cuban government, on average other Latin American countries received IMF and World Bank support as a portion of GDP *greater* than Cuba's trade deficit. It is an obvious conclusion that had Cuba had access to foreign borrowing at the level of the average Latin American country (or even below), considerably less import compression would have been necessary.

As a consequence of the lack of external finance, during 1991-1993 the Cuban economy suffered a contraction which was probably unprecedented in Latin America in this century. Table 6 provides a 'league table' of Latin American economic contractions since 1980, for one-year, two-year, and three-year periods. The contraction of the Cuban economy in 1993 (minus fifteen percent) is second to that of Panama for 1988, but Cuba's two year decline, 1992-1993, is nine percentage points above the next highest (Nicaragua, 1988-1989). Only the Peruvian collapse of 1988-1990 approaches Cuba's three-year decline of thirty-six percent (1991-1993). The table also provides growth rates for the three years following the two- and three-year declines, to allow inspection of relative performance in recovery.[5] Comparing across two-year declines, Panama had the fastest recovery rate, followed by Cuba, with Chile close behind. For comparisons across the thirteen three year declines, the Cuban recovery rate stands in fourth place.

Without external finance and export-constrained by US sanctions (in contrast to Viet Nam), the Cuban government had no choice but to achieve external balance through output contraction. Table 7 shows that the burden of adjustment was placed on investment and, to a lesser extent, private consumption. In 1996, when recovery was in process, total GDP remained twenty-six percentage points below the average of 1987-1989, with investment seventy-five percentage points down.[6] The fall in investment is further indicated by imports of capital goods, which declined form about a quarter of total imports during 1987-1990, to less than five percent in 1993 and 1994 (last row of Table 7). For consumption, the private sector component fell considerably more than the public sector (thirty-three compared to fifteen percentage points). These percentages reveal a conscious strategy of the government to sustain the supply of essential public goods during the adjustment process. Viet Nam, facing more favourable external conditions, was able to pursue an adjustment through growth strategy. Unable to do this, the Cuban government opted for minimising the social impact of adjustment.

As a result, the recovery of the Cuban economy was on the basis of excess capacity, with little new investment. In the medium term this strategy could not be sustained, as capital equipment deteriorated, and its obsoleteness resulted in lower competitiveness in key sectors (notably in sugar). By reducing output, especially

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5 A simple regression test provides no support for the hypothesis that growth rates during recovery are correlated with rates during the decline, either positively or negatively (the test statistics are not significant).

6 At its nadir in 1993, investment fell in real terms to fourteen percent of the 1987-1989 average.

investment, the trade deficit could be narrowed, from almost US three billion dollars in 1989, to eight hundred million in 1994 (see Table 8). However, without Soviet aid or access to external borrowing, even this deficit level could not be sustained. As is well-know, the remaining deficit was covered by earnings from tourism, which rose form less than US$ 400 million during 1989-1991, to well over one billion in the mid-1990s. By 1994, tourist revenue slightly exceeded the trade deficit, though not in 1995 and 1996. During the latter years inflows of direct foreign investment provided the foreign exchange cover for the increase in imports
.

However, because of the low level of investment during the crisis and recovery, it is doubtful that the Cuban economy was less import-dependent than it had been in the 1980s. On the contrary, the rapid increase in tourism implied that in the short and medium term, the economy became more import-using at the margin. It follows that that Cuba's recovery involved relatively little structural change in the medium term, and should not be considered sustainable. By the end of the 1990s, the government faced a challenge equal to that of overcoming the crisis of the first half of the 1990s: to restructure the economy to make it less import-using in tourism, while developing new export sectors to replace sugar. Extraction and export of nickel proved to be the most successful of the latter in the 1990s.

The analysis of the Cuban crisis and subsequent recovery can be summarised as follows. Following the collapse of the Soviet Union, the Cuban economy declined by considerably more than the economies of Central and Eastern Europe, but less than for the former members of the Soviet Union. One might explain these differences by the degree to which countries had their trade concentrated within the Soviet Bloc. The severity of Cuba's economic decline was the result of a trade deficit rendered unsustainable by the end of Soviet aid, and the contraction of exports to the Soviet Bloc. Had Cuba enjoyed access to the Bretton Woods institutions (or international capital markets), the output contraction associated with the trade deficit would have been considerably less. Not withstanding this lack of access, recovery from the sharp output contraction was relatively rapid. However, this recovery involved little structural change, and could not be considered sustainable into the new century.

Adjustment in Viet Nam

Compared to the Cuban story, the Vietnamese tale of transition is quite simple. As Table 9 shows, the country's growth rate prior to the collapse of the Soviet Union was about two-thirds that of the average for the so-called High Performing Asian Economies (HPAE, see World Bank 1993a). Over the next four years, the Vietnamese growth rate exceeded that of the HPAEs, and Viet Nam had the fastest growing economy in East and Southeast Asia during 1994-1997, with the exception of China. Viet Nam achieved this growth performance, first, by closing the trade gap through export growth, then, by combining export growth inflows of capital (see Table 10). In every year, 1991-1995, capital inflows to Viet Nam exceeded the trade gap, a notable contrast with the situation for Cuba.

In this context, the World Bank, in its 1993 report on Viet Nam, commented that 'Viet Nam has shown strong growth throughout its adjustment program'. It went on to write, 'Viet Nam's recent economic success is attributable to an ambitious adjustment and reform program which it has undertaken without significant support from outside' (World Bank 1993b, pp. iii & i). While both these statements are true, what distinguished the case of Viet Nam was the central role played by the state in managing the transition, rather than leaving adjustment to the dictates of the market. The World Bank interpretation of the Vietnamese stabilisation success was that policy makers achieved price stability through implementation of tight monetary and fiscal policy. IN the World Bank view, the reduction of bank financing of the government deficit was especially important. This interpretation is also suggested by Irvin: 'a problem [i.e., inflation] -- it is argued -- rectified mainly by the adoption of an IMF-style stabilisation package in 1989' (Irvin 1994, pp. 5-6).

A review of macroeconomic indicators suggests a different interpretation of what happened in Viet Nam during 1989-1992 (see Table 11). As discussed above, before the stabilisation programme of 1989, Viet Nam's GDP growth rate was quite high for countries in transition. At an average of five percent per year during 1986-1989, national income increased significantly faster than population growth. This statistic is important, because stabilisation is considerably easier to achieve when growth performance is strong. Second, the stabilisation period, 1989-1992, did not see a large reduction in the fiscal deficit compared to the previous four years. During 1989-1991 the fiscal deficit was a higher proportion of GDP than during 1986-1988, yet the rate of inflation fell dramatically: for 1986-1988 inflation averaged over 350 percent a year, and for 1989-1991 the average was less than seventy percent. While it is true that a very low deficit in 1992 was associated with inflation of less than forty percent, a lower deficit the year before coincided with inflation twice as high. Therefore, one cannot construct a credible story that links the decline in inflation to the reduction of the deficit.

Changes in the trade deficit provide a more convincing explanation of the successful stabilisation. In Table 11 shows that during 1985-1988, the trade deficit averaged almost 100 per cent of exports (imports were double exports). Then, for 1990-1992, it fell to an average of less than three percent of exports (and less than one percent of GDP). Table 12 shows that the trade deficit was almost eliminated by the dramatic increases in exports of marine products, rice, and petroleum, with the latter two products close to zero in 1985-1986. The expansion of petroleum exports might be interpreted as the good luck of being endowed with this resource. However, the phenomenal increase in rice exports, from zero in 1988 to over US$ 400 million in 1992, occurred as a result of government policy.[7] While the increase in rice exports reflected a dramatic increase in production, the expansion of marine product exports involved a diversion from domestic consumption.[8] These three products together accounted for nine percent of total exports in 1985, then rose to almost half in 1989.

Viet Nam's success in transition can be explained as *a process of export-led stabilisation* (see Figure 10). Faced with an unsustainable balance of payments

[7]The system of interventions is briefly described in World Bank 1993, p. 130. Rice production increased from an average of less than sixteen million tons during 1985-1987, to over twenty million during 1990-1992 (Trâ'n Hoàng Kim 1996, p. 302).

[8] Rice production increased from an average of less than sixteen million tons during 1985-1987, to over twenty million during 1990-1992, or twenty-nine percent. The increase for marine products was just over four percent for the same years (Trâ'n Hoàng Kim 1996, p. 302, 322).

position in the mid-1980s, the government embarked upon a policy that had two aspects: institutional reform to make the economy responsive to standard macroeconomic instruments in the medium-term, and emergency measures to increase exports to stabilise the economy in the short-term. Expansion of petroleum exports would not have been sufficient, in itself, to achieve external balance; nor could rice or marine products alone have done this. But, the combination of the three, along with capital inflows, stabilised the exchange rate by 1992. In the subsequent two years the *dong* appreciated considerably, from a high of around 13,000 to the dollar to below 11,000 in 1993. The exchange rate movements made the task of controlling inflation a relatively easy one. Once the economy entered into an export-led stabilisation process, it was possible for the authorities to maintain a relatively expansionary monetary and fiscal policy.

The standard stabilisation package, implemented with little success in the transitional economies of Europe, calls for demand reduction through restrictive monetary and fiscal policy. This was not the policy implemented in Viet Nam. On the contrary, economic management in Viet Nam placed growth as the first priority. By maintaining, then increasing, export growth, the government was able to stabilise the exchange rate and bring inflation under control. The circumstances of each country in transition are different, so it is dangerous to attempt to draw general lessons from the experience of one country. However, the success of Viet Nam can be placed in wider context. First, considerable accumulated evidence from IMF programmes over several decades indicates that balance of payments adjustment and reduction of inflation are more easily achieved in a growing economy that through restriction of demand (Pastor 1987). Second, it would seem obvious that institutional reforms aimed at creating markets and linking nominal to real variables should precede stabilisation measures. The process of transition is not one of 'awakening markets',[9] but rather of constructing the institutional mechanisms by which producers can respond to policy measures. In this context it is a misinterpretation to refer to the pre-1989 reforms in Viet Nam as a 'half-hearted attempt' (Leipziger 1992, p. 1); on the contrary, the reforms of the mid-1980s initiated the process of transforming the economy from central planning to market regulation.

After 1992 the trade deficit began to rise, reaching close to twenty percent of GDP in 1997. In the absence of permanent non-trade flows of foreign exchange, a deficit of this size is difficult, if not impossible, to sustain. Kokko and Sjöholm interpret the growth of the trade deficit to be an indicator of the much deeper problem of the failure of the government to pursue reform of the economy:

> …[D]uring the past couple of years, it has become increasingly well understood that it may not be possible to sustain the gains of the *doi moi* program unless a second generation of structural reforms is introduced.
>
> Most of the structural weaknesses in the Vietnamese economy are related to a development strategy that is based on import substituting state-owned enterprises (SOEs). These weaknesses have recently been manifested in a trade deficit corresponding to some 15 percent of GDP, weak profitability in SOEs, and the virtual absence of a modern, private industrial sector. (Kokko and Sjöholm 1997, p. iv)

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[9] This is the title of World Bank working paper on Viet Nam by Leipziger (1992).

The quotation is confusing, with its allusion to an unspecified consensus ('increasingly well understood') and undefined term ('second generation of structural reforms'). However, the implication is clear: that the trade deficit (along with other maladies) results from the Vietnamese government pursuing a development strategy at odds with the current mainstream emphasis upon a relatively passive role for the state.[10] It may or may not be the case that the Vietnamese government would be well-advised to pursue vigorously privatisation and market liberalisation; given the economy's performance in the 1980s and 1990s without these measures, some might hesitate to make such a generalisation. Since the authors provide no quantitative evidence to relate it to the ownership structure of the economy, the specific link between state-led growth and the trade deficit can be considered an interesting, but unsubstantiated hypothesis.

The speculative nature of this hypothesis is all the greater, because macro data offer a much more obvious explanation of the growth of the trade deficit: movements in the real exchange rate and the growth of direct foreign investment. If one takes 1989 as an index of one hundred, and an increase represents a devaluation, a standard purchasing power parity measure of the real exchange rate was twenty-one in 1986.[11] By 1993 the exchange rate had appreciated to sixty-five, falling to fifty in 1996 (see Figure 11). Given the decentralisation of decision-making in state enterprises during the 1990s, an appreciating exchange rate would have encouraged imports and discouraged exports. In the household sector, the appreciation would have provided incentives for consumption of imported commodities. Also during the 1990s, foreign direct investment increased dramatically as a portion of GDP (see Table 10), and a large part of this increase financed imports, especially for construction. Table 13 reports the results of two regression exercises. Both derive from the simple formulation,

$$xn_t = xn_t(RER_t, FDI_t)$$, where xn_t is net exports, RER_t the real exchange rate, and FDI_t the share of foreign investment in GDP.

In the first estimation, FDI is treated as a binary variable, assuming the value of unity when foreign direct investment rises above one percent of GDP. In the second calculation, the numerical values are used. In both cases the estimation explains over sixty percent of the variation in net exports, there is an absence of serial correlation, and the coefficients are of the predicted sign (and significant). While one should hesitate to draw conclusions from regressions with nine degrees of freedom, Table 13 provides *prima facie* evidence for causal relationships well-known in economic theory: appreciating exchange rates tend to worsen a country's trade balance, and foreign direct investment tends to finance imports rather than domestic costs.

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[10] For example, the authors write,

> We suggest that the alternative where development is built on **large centrally controlled SOEs** [state owned enterprises] would lead to the emergence of domestic oligopolies and monopolies, a concentration of resources to areas where Vietnamese comparative advantages are weak, a reduction of foreign capital inflows, and a significant fall in the growth rate. (Kokko and Sjöholm 1997, p. iv, emphasis in the original)

[11] The real exchange rate in this case is measure as the nominal exchange rate for the *dong* times the ratio of the US wholesale price index to the Vietnamese GDP deflator.

Viet Nam's adjustment to the collapse of the Soviet trading system can be explained in terms of short-term measures of expediency taken within a longer term strategy of state-led development. It remains to be seen if the latter can be sustained remains to be seen. However, it is clear that the short-term measures were successful. In the late 1980s and early 1990s the government used a range of interventions to force a higher ratio of exports to GDP, combining this with exchange rate devaluation. By the mid-1990s, tactics had shifted to fostering foreign direct investment and negotiating concessional capital flows from multilateral institutions (including the Asian Development Bank). This shift in policy resulted in a rapid increase in the trade deficit. Given the size of that deficit in 1997, it is likely that policy will shift back to devaluation and export-financed, rather than foreign capital financed, investment-led growth.

Conclusion

It is generally recognised that the 1980s and 1990s were characterised by considerable economic instability of the world economy. During these two decades underdeveloped countries, particularly the high-indebted, passed through process of adjustment that involved severe social costs. For most of these countries, external assistance for the adjustment process required governments to accept the conditions of the so-called Washington Consensus. The key features of this 'Consensus' were sharp and rapid reductions in fiscal deficits, restrictive monetary policy, trade liberalisation, reduction of state interventions in domestic markets, and privatisation of public enterprises. By the late 1990s, even mainstream commentators accepted that this orthodox approach had been 'incomplete' and 'sometimes misguided'.[12]

Viet Nam and Cuba had governments which did not endorse the Consensus policies, even when they were being pressed upon governments throughout the underdeveloped world. Explaining why they did not, when virtually all other governments did is beyond the scope of this chapter. However, it is clear that the economies of both countries did not suffer the extreme collapse suffered in Central and Eastern Europe and Russia. In Viet Nam's case, performance was considerably better than even the most spectacular 'high performers'. While Cuba's adjustment and subsequent recovery could at best be described as modestly successful in terms of growth, by comparison to relevant alternative country strategies, it emerged form crisis less scarred and devastated. In the case of Cuba, it remains problematical how recovery will become sustainable growth.

Neither country provides a clear alternative strategy of adjustment, which could be generally followed in place of the Consensus orthodoxy. However, the relative failure of the latter in many countries, and the relative success of the former heterodoxies in two countries, suggests that there is a wide range of macroeconomic policies which governments can employ in face of severe balance of payments crises.

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[12] This judgement is from Joseph Stiglitz, chief economist of the World Bank (Stiglitz 1998, pp. 34, 1).

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Table 1:
Basic Economic Indicators for Cuba and Viet Nam, 1986-1998
A. Cuba

Years	GDP growth	crr US$ exports	imports	TB/GDP	Nominal Par Rate
1986	1.8	5322	7596	-12.3	na
1987	-1.6	5401	7612	-12.2	na
1988	4.8	5518	7579	-10.8	na
1989	1.5	5400	8140	-14.3	na
1990	-3.1	5415	7417	-10.2	na
1991	-9.4	2980	4234	-7.7	na
1992	-11.6	1779	2315	-3.2	19.5
1993	-14.9	1137	2037	-6.0	42.5
1994	0.7	1314	1956	-4.2	105.0
1995	2.5	1526	2088	-3.5	32.1
1996	7.8	1966	3438	-8.2	19.2
1997	4.0	2120	3743	-8.4	20.8
1998	5.0	2519	4582	-9.9	18.8

Sources: CEPAL (1996), Banco Nacional de Cuba (1996 & 1997), Ministry of Economy & Planning (1997 & 1998), Ministerio de Educación Superior (1996), Morris (1997 & 1998), and Triana (1997).

B. Viet Nam

Years	GDP growth	crr US$ exports	Crr US$ imports	TB/GDP	PPP Exch rate
1986	2.0	494	1121	-5.2	21
1987	3.7	610	1184	-4.7	15
1988	5.9	733	1412	-5.4	23
1989	8.0	1320	1670	-2.6	100
1990	5.1	1731	1772	-0.3	80
1991	6.0	2042	2105	-0.4	83
1992	8.6	2475	2535	-0.4	79
1993	8.1	2985	3532	-3.2	65
1994	8.8	4045	5244	-6.4	59
1995	9.5	5198	7543	-11.5	53
1996	9.4	7330	10,480	-14.1	50
1997	9.0	7200	11,700	-18.5	51
1998	na	na	na	na	na

Sources: Trâ’n Hoàng Kim (1996), Kokko & Sjöholm (1997). The data for calendar year 1997 were provided from the Bank of Viet Nam, via the Institute for Economic & Development Research, National Economics University.

Table 2:
GDP Growth Rates, Formerly Centrally Planned Countries, Cuba & Viet Nam, 1986-1997

Region & country	1986-89	1990-93	1994-97
Central & Eastern Europe			
1. Albania	3.1	2.9	4.4
2. Bulgaria	4.7	-8.5	-3.4
3. Czech Republic	2.3	-5.7	3.3
4. Hungary	1.7	-3.3	2.3
5. Poland	2.5	-2.9	5.8
6. Romania	-2.4	-5.9	3.3
7. Slovak Republic	2.5	-7.1	6.2
average	2.1	-4.3	3.1
Former USSR			
1. Armenia	2.9	-23.7	6.2
2. Azerbaijan	-3.0	-17.7	-5.4
3. Belarus	6.9	-5.5	-3.8
4. Estonia	2.7	-12.1	2.4
5. Georgia	-2.1	-27.3	3.9
6. Kazakstan	1.0	-8.5	-6.1
7. Kyrgyz Republic	6.4	-8.6	-4.4
8. Latvia	4.5	-14.6	1.2
9. Lithuania	7.4	-12.5	3.0
10. Tajikistan	2.6	-13.0	-13.7
11. Ukraine	3.2	-9.0	-12.6
12. Uzbekistan	6.1	-3.0	-0.1
13. Russian Federation	3.0	-7.9	-6.2
14. Mongolia	5.5	-6.5	na
average	3.4	-12.1	-2.7
Cuba	1.6	-9.7	3.8
No. < Cuba	(4)	(7)	(13)
Viet Nam	4.9	6.9	9.2
No. < Viet Nam	(15)	(21)	(20)
Other			
China	9.1	10.4	10.7
Laos*	3.9	5.9	7.7

Notes:

Lagos, through 1995.

Omitted due to incomplete data:

Bosnia & Herzegovina, Croatia, Macedonia, Moldavia, Slovenia, Turkmenistan, and Yugoslavia (Serbia & Montenegro).

Source: World Bank, *World Development Indicators 1997* (CD-ROM), United Nations (1997).

Table 3:
Latin America: Annual Average Growth of GDP and GDP Per Capita by Time Periods, 1986-1997

Periods:	1986-89	1990-93	1994-97
Countries			
GDP Growth:			
1. Argentina	**0.4**	5.9	**3.6**
2. Bolivia	**1.5**	4.2	4.0
3. Brazil	3.7	-0.2	3.8
4. Chile	7.3	6.9	6.6
5. Colombia	4.8	3.8	4.8
6. Costa Rica	4.9	5.0	**2.2**
7. Dominican Republic	6.0	1.7	5.2
8. Ecuador	1.9	3.4	**3.0**
9. El Salvador	**1.3**	5.7	4.8
10.Guatemala	2.9	3.9	3.5
11. Honduras	3.9	3.8	**2.5**
12. Mexico	**0.7**	2.9	**2.1**
13.Nicaragua	**-3.9**	0.0	4.4
14. Panama	**-2.6**	7.0	3.7
15.Paraguay	4.1	2.8	**2.8**
16.Peru	**-0.6**	1.3	7.4
17. Uruguay	4.5	3.5	3.9
18. Venezuela	1.8	5.7	**0.7**
Average	2.4	3.7	3.8
Cuba	**1.6**	**-9.7**	**3.8**
(no. < Cuba)	(7)	(0)	(7)
GDP per capita growth			
Latin America	0.0	0.2	1.9
Cuba	**0.5**	**-10.5**	**3.2**
(no. < Cuba)	(12)	(0)	(16)

Note: Countries with lower growth rates lower than Cuba's have their numbers in bold.
Sources: CEPAL (1991 & 1997).

Table 4:
Latin America: Merchandise Trade Deficit
As Proportion of GDP, 1986-1996

Country	1986-89	1990-93	1994-96
Argentina	3.5	1.7	-0.4
Bolivia	0.4	-2.3	-0.3
Brazil	4.0	3.0	0.7
Chile	6.7	2.1	1.7
Colombia	2.9	2.2	-4.0
Costa Rica	-1.0	-5.3	-4.9
Dominican Republic	-15.0	-21.9	-38.2
Ecuador	4.1	6.3	2.2
El Salvador	-9.4	**-14.9**	**-15.1**
Guatemala	-3.0	**-6.9**	**-7.0**
Honduras	-1.9	-5.5	**-11.1**
Mexico	3.1	-2.8	-1.0
Nicaragua	**-16.3**	**-24.7**	**-20.4**
Panama	-47.6	-75.5	-81.3
Paraguay	3.5	**-9.8**	**-17.8**
Peru	0.2	-0.7	-2.8
Uruguay	3.9	0.1	-3.8
Venezuela	3.9	9.6	11.1
average	-3.2	-8.1	-10.7
Excluding Panama & Dominican Republic	0.3	-3.0	-4.6
Cuba	-12.4	-6.8	-5.3
(No. > Cuba)	(1)	(4)	(5)

Note: Country figures greater than Cuba in bold. Borders indicate non-relevant comparisons.
Source: World Bank, World Development Indicators, CD-ROM (where there are errors), and CEPAL 1997.

Table 5:
Latin America: IMF and World Bank (IBRD & IDA)
Loans as a Proportion of GDP, 1986-1995

Country	1986-89	1990-93	1994-95
Argentina	5.2	2.9	3.4
Bolivia	**15.0**	**17.3**	**18.6**
Brazil	3.8	2.1	1.0
Chile	**12.4**	**7.5**	3.2
Colombia	10.1	**7.6**	3.6
Costa Rica	11.7	**7.1**	4.1
Dominican Republic	8.5	4.5	4.3
Ecuador	10.9	**8.1**	**6.8**
El Salvador	5.0	3.6	3.7
Guatemala	4.7	3.1	1.2
Honduras	**17.4**	**22.9**	**24.7**
Mexico	7.4	5.9	**8.2**
Nicaragua	2.8	**8.3**	**12.7**
Panama	**16.5**	**9.5**	4.4
Paraguay	9.4	4.5	2.5
Peru	9.0	5.4	4.8
Uruguay	8.6	4.8	3.2
Venezuela	0.7	**7.8**	**6.3**
average	8.8	**7.4**	**6.5**
(> Cuban TDDef)	(4)	(9)	(6)

Source: World Bank, *World Development Indicators 1997* (CD-ROM), where there are errors in reporting of GDP in current US dollars.

Table 6:
League Table, Negative Growth Rates of GDP in Latin America after 1980

	Year(s)	Cumulative	
One year declines > 5.0:			
1. Panama	1988	-16.0	
2. Cuba	**1993**	**-14.9**	
3. Chile	1982	-14.1	
4. Nicaragua	1988	-13.4	
5. Cuba	**1992**	**-11.6**	
6. Peru	1989	-11.5	
7. Peru	1983	-10.9	
8. Uruguay	1982	-9.4	
9. Cuba	**1991**	**-9.4**	
10. Bolivia	1983	-8.6	
11. Peru	1988	-8.4	
12. El Salvador	1981	-8.3	
13. Venezuela	1989	-7.9	
14. Ecuador	1987	-7.3	
15. Costa Rica	1982	-7.3	
16. Bolivia	1982	-6.6	
17. Mexico	1995	-6.6	
18. Argentina	1981	-6.2	
19. El Salvador	1982	-5.6	
20. Venezuela	1983	-5.6	
21. Mexico	1983	-5.3	
22. Dominican Republic	1990	-5.2	
23. Peru	1990	-5.1	Following
Two year declines > 10.0:			3 years
1. **Cuba**	**1992-93**	**-26.5**	**4.8**
2. Nicaragua	1988-89	-17.5	0.2
3. Peru	1989-90	-16.6	2.6
4. Panama	1988-89	-16.3	7.9
5. Bolivia	1982-83	-15.2	-2.4
6. Chile	1982-83	-14.8	4.7
7. Uruguay	1982-83	-14.4	2.7
8. El Salvador	1981-82	-13.9	0.9
9. Argentina	1981-82	-11.4	0.2
Three year declines (all):			
1. Cuba	**1991-93**	**-35.9**	**4.8**
2. Peru	1988-90	-25.0	2.6
3. Nicaragua	1987-89	-18.2	0.2
4. Bolivia	1982-84	-18.9	-0.3
5. Uruguay	1982-84	-16.2	6.0
6. Nicaragua	1986-88	-15.1	-1.2
7. El Salvador	1981-83	-14.6	1.3
8. Bolivia	1983-85	-13.3	1.0
9. Venezuela	1983-85	-7.3	5.4
10. Argentina	1988-90	-7.6	8.4
11. Bolivia	1984-86	-7.2	2.8
12. Nicaragua	1984-86	-6.5	-6.1
13. Nicaragua	1985-87	-5.8	-5.9

Note: For two and three year declines, growth must be negative in each year.
Sources: CEPAL (1985, 1991, 1997).

Table 7:
Growth Rates of Investment and Consumption in Cuba, 1987-1996

Item:	1987-89	1990	1991	1992	1993	1994	1995	1996	If 1987/9 =100, 1996 =
Investment	2.5	-2.8	-45.9	-58.3	-39.7	5.8	58.1	10.1	25
Consumption	2.1	-3.9	-11.7	-13.2	-5.8	0.8	0.7	2.5	73
public	2.2	-0.1	-10.5	-5.2	-1.1	-1.9	-0.4	1.9	85
private	2.0	-6.0	-12.5	-18.7	-9.6	3.1	1.6	3.0	67
GDP	2.2	-3.0	-10.7	-11.6	-14.9	0.7	2.5	7.8	74
Investment goods as % of tot imports	24	27	22	8	4	3	6	na	

Source: CEPAL 1997, p. 16.

Table 8
Merchandise Exports and Imports and Tourist Earnings, 1989-1996
(current US dollars, millions)

	1989	1990	1991	1992	1993	1994	1995	1996
Exports, goods	5392	5415	2980	1779	1137	1315	1479	1849
imports, goods	8124	7417	4233	2315	2037	2111	2772	3493
trade balance	-2732	-2002	-1253	-536	-900	-796	-1293	-1644
tourist earnings	319	347	387	567	720	850	1100	1380
trade balance – tourist earnings	-2413	-1656	-866	31	-180	54	-193	-264

Source: CEPAL 1997, p., 34, 37.

Table 9:
East & Southeast Asia: Growth of GDP and
GDP Per Capita by Time Periods, 1986-1997

Periods:	1986-89	1990-93	1994-97
Countries			
1. Hong Kong	8.2	**5.0**	**4.9**
2. Indonesia	5.8	**6.5**	**7.6**
3. Korea	9.8	7.1	**7.9**
4. Malaysia	5.9	8.3	**9.1**
5. Philippines	5.0	**1.2**	**4.8**
6. Singapore	7.6	7.6	**8.4**
7. Thailand	9.6	8.7	**7.9**
Average	7.4	6.3	7.2
Viet Nam	**4.9**	**6.9**	**9.2**
(No. < Viet Nam)	(0)	(3)	(7)

Note: Countries with lower growth rates have their numbers in bold.
Sources: World Bank, *World Development Indicators 1997* (CD-ROM) and United Nations (1997).

Table 10:
Viet Nam: Official Development Assistance
And Direct Foreign Investment, 1990-1995

Years	Bilateral Aid/GDP	Forg Dir Inv/GDP	IBRD& IDA/GDP	IMF Credits/GDP	Total
1990	na	0.8	0.0	na	na
1991	2.5	1.5	0.6	0.0	4.6
1992	5.8	1.6	0.6	0.0	8.0
1993	2.0	1.7	0.4	0.0	4.1
1994	5.9	5.6	1.2	1.8	14.5
1995	4.1	8.7	1.1	1.9	15.8

Source: World Bank, *World Development Indicators 1997* (CD-ROM) for aid, IBRD&IDA, and IMF; Trâ'n Hoàng Kim (1996) and Kokko & Sjöholm (1997) for foreign investment.

Table 11:
Viet Nam: Indicators of External and Internal Balance, 1985-1992

Year/Item	T-G GDP	X-M Opts	Inflation	GDP growth
1985	-12.0	-82.7	192	5.7
1986	-4.7	-126.7	487	2.0
1987	-4.1	-94.1	317	3.7
1988	-7.7	-92.6	311	5.9
1989	-11.4	-26.5	76	8.0
1990	-8.0	-2.4	29	5.1
1991	-2.5	-3.1	83	6.0
1992	-3.8	-2.4	38	8.6
Annual Averages				
1985-88	-7.1	-99.0	326	4.3
1989-92	-6.4	-8.6	57	6.9

Definitions:
(T-G)/GDP -- ratio of the budget deficit to GDP
(X-M)/X -- ratio of the trade deficit to exports

Source: Ran Hong Kim 1992 and World Bank 1993.

Table 12:
Viet Nam's Foreign Trade, 1985-1992
(Exports & imports in millions of US dollars)

Years	Total Exports	Percent Conv'ble	Xp - Mp	By product: 1. Rice	2. Net Oil	3. Marine Products	4. Light Manuf	1-3 Tot Exp
1985	497	68%	-406	0	0	45	22	9.1%
1986	494	62	-627	0	0	95	65	19.2
1987	610	71	-574	0	30	113	30	23.4
1988	733	63	-679	0	79	124	18	27.7
1989	1320	74	-350	316	200	133	20	49.2
1990	1731	73	-41	272	34	220	20	30.4
1991	2042	98	-63	225	96	285	204	29.7
1992	2475	100	-60	420	141	302	321	30.0

Notes: Percent conv'ble -- percentage of exports in convertible currency
Xp – Mp = trade balance
Source: World Bank (1993, pp. 239-240).

Table 13:
Viet Nam: The Trade Balance in GDP, as a Function of the PPP Exchange Rate, Shift Variable (1992-97), and Foreign Direct Investment, 1986-1997

Variable	Coefficient	T-statistic	Sign. of T
Ln[trade balance]			
(Constant)	5.310	3.66	.005
Ln[real exch rate]	-1.296	-3.46	.007
Shift (after 1992)	2.223	4.52	.001
Adj R-sq = .696			
F = 13.62			
Sign. of F = .002			
D-W = 1.666			
DF = 9			
[trade balance]			
(constant)	-53.550	-4.76	.001
Ln[real exch rate]	11.750	4.21	.002
Ln[DFI/GDP]	-3.077	-4.65	.001
Adj R-sq = .646			
F = 11.02			
Sign. of F = .004			
D-W = 1.806			
DF = 9			

Note: When the logarithmic form is used, the trade balance must be made a positive number, but is negative in the second formulation. This explains the reversal of signs of coefficients.

Figure 1:

GDP Growth: Cuba and Viet Nam, 1987-1997

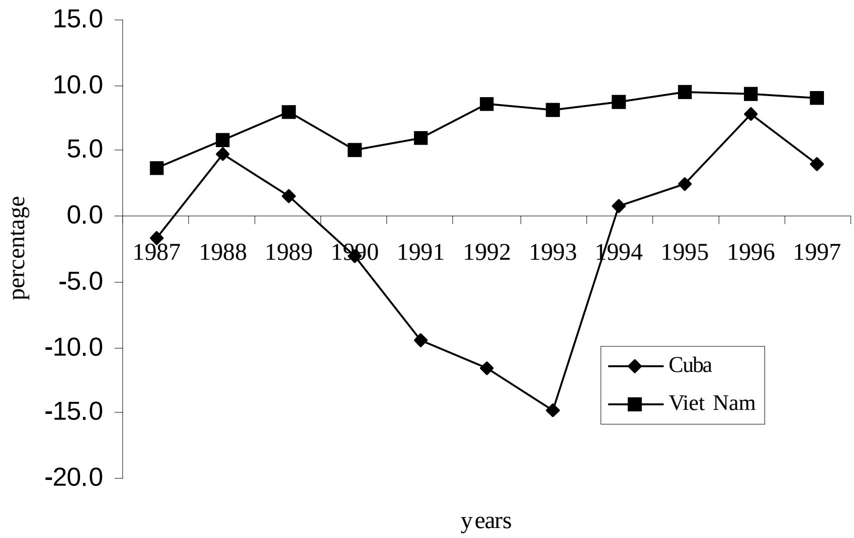

Figure 2:

Cuba & Vietnam: Trade ([X+M]/2)
as a Percentage of GDP, 1986-1998

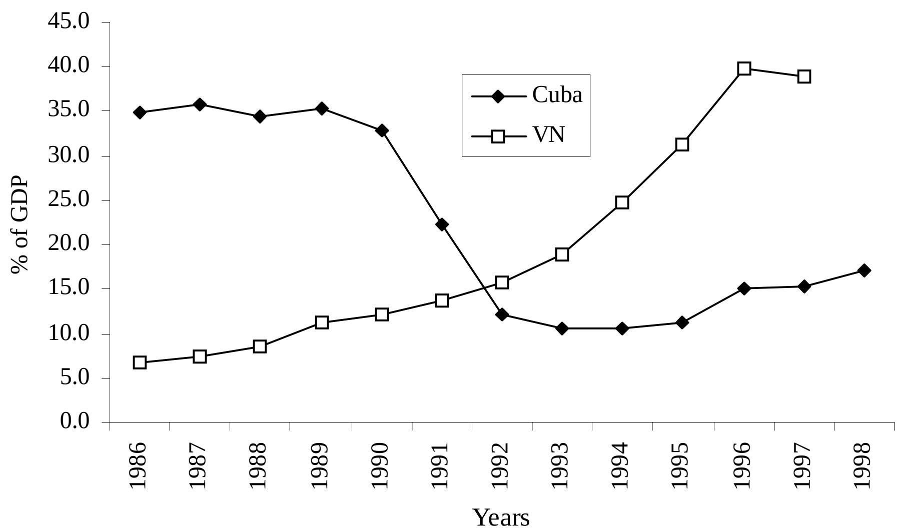

Figure 3:

Cuba & Viet Nam: Trade Balance as a Percentage of GDP, 1986-1998

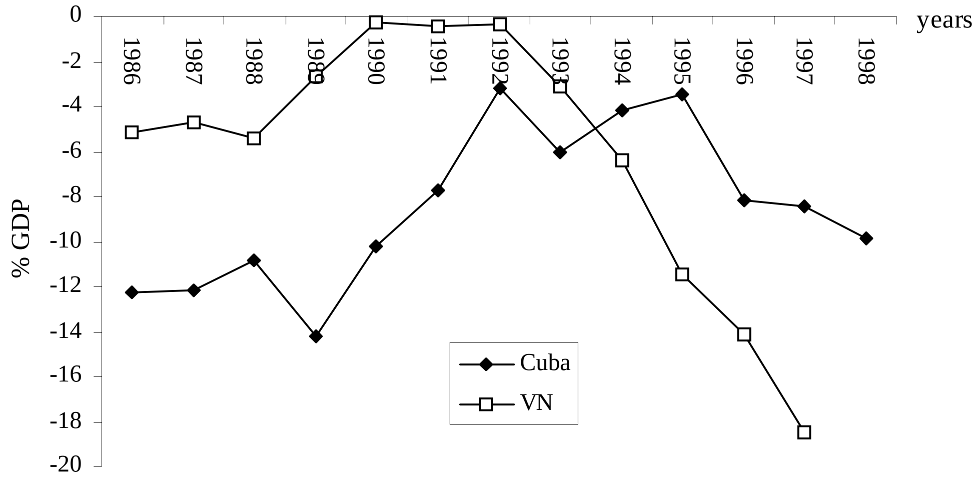

Figure 4:

Growth Rates: Former Centrally Planned Countries, Cuba and Viet Nam, 1987-1997

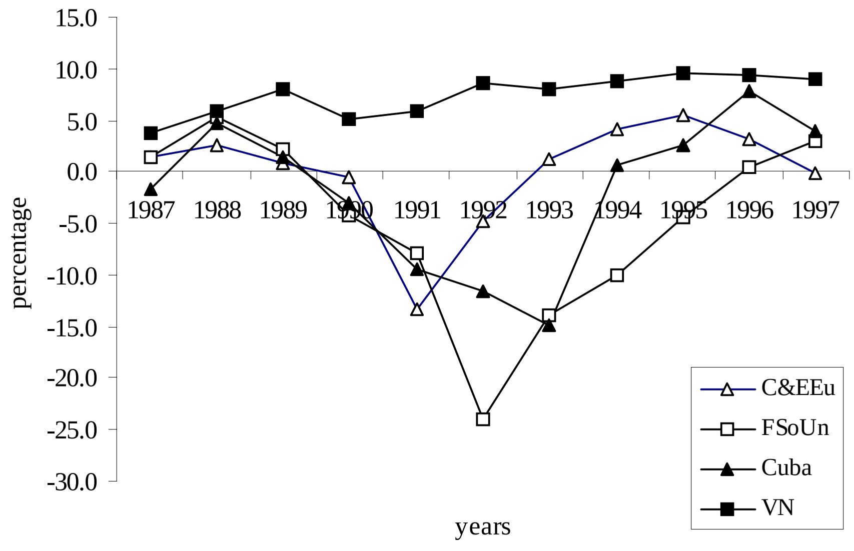

Figure 5:

GDP Growth Rates: Latin American Average and Cuba, 1987-1997

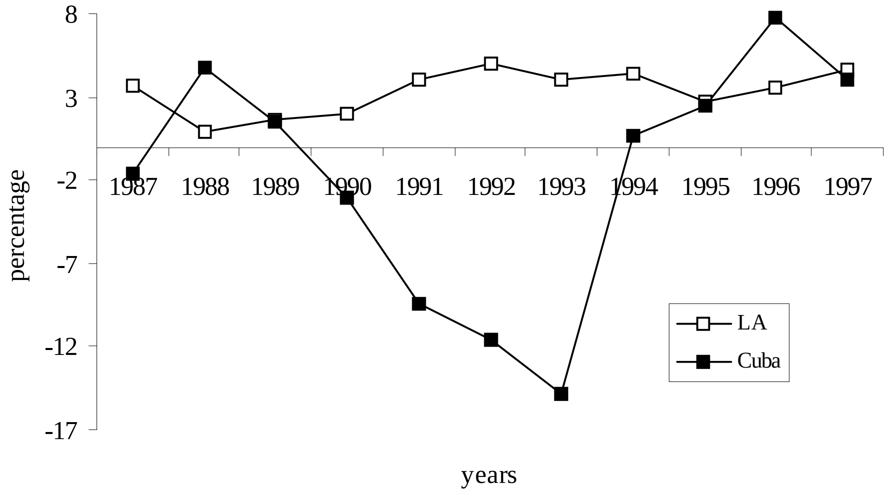

Figure 6:

GDP Growth Rates: East & Southeast Asian Average and Viet Nam, 1987-1997

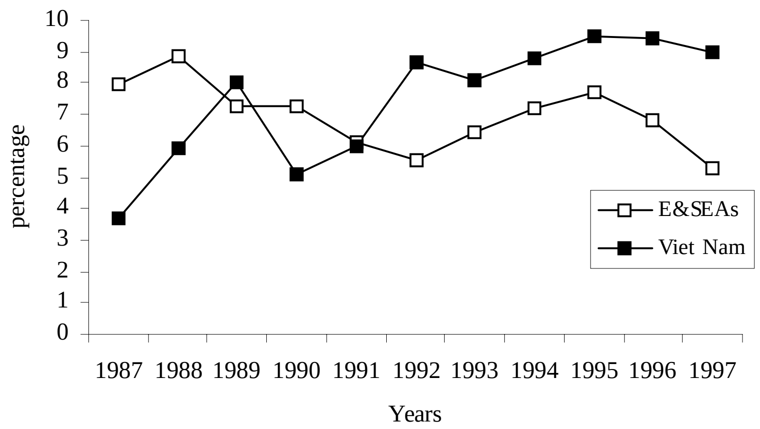

Figure 7:

Cuba: Trade Balance & Trade Balance Less Tourism Revenue, 1986-1998

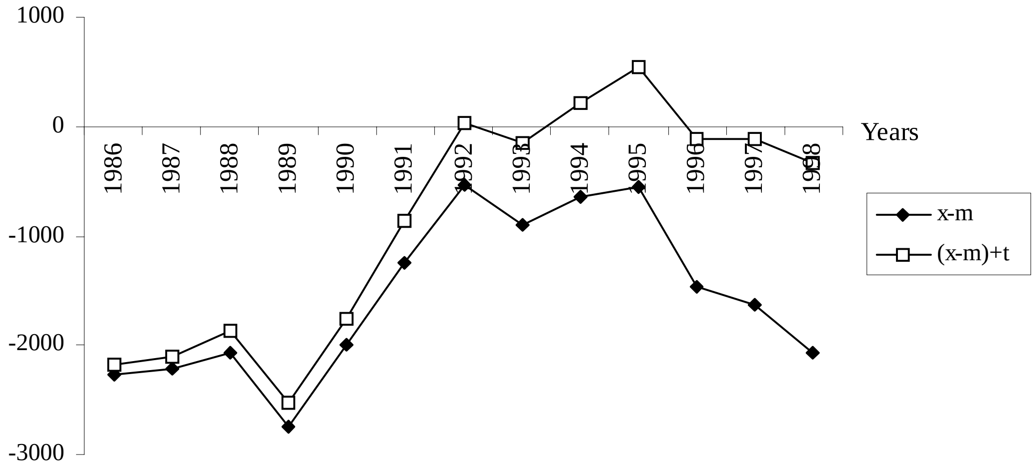

Figure 8:

Cuba: Import Compresson and Export Expansion (negative) after 1989 (Compared to X/GDP & M/GDP, 1986-89)

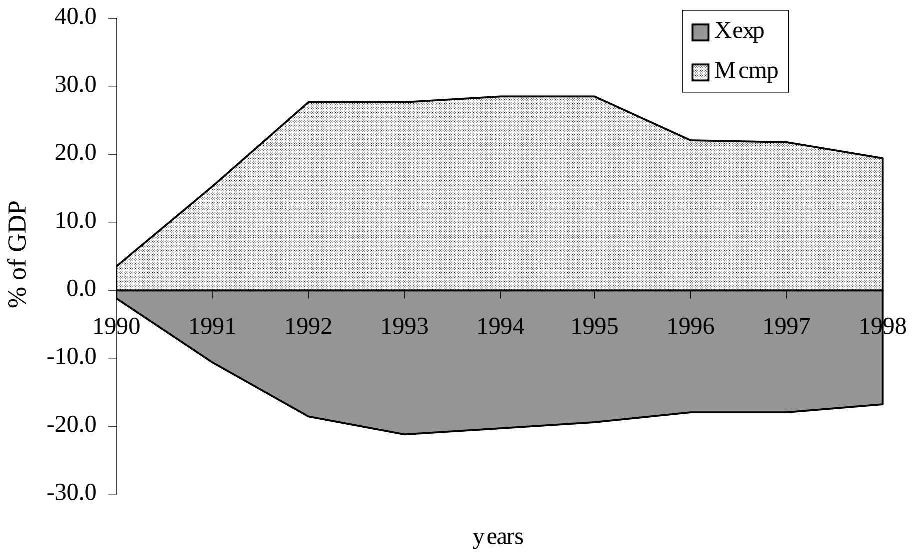

Figure 9:

Cuba: Trade Deficit Reduction by Net Import Compression plus Tourism after 1989
(1986-89 Trade Deficit =12.4%)

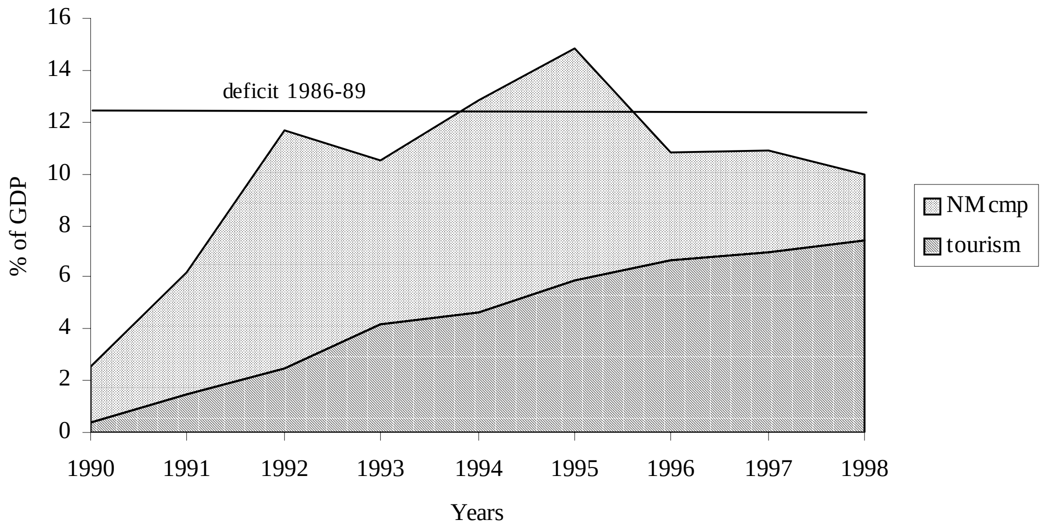

Figure 10:

Vietnam: Import Compression (negative) and Export Expansion after 1989 (Compared to M/GDP &X/GDP 1986-89)

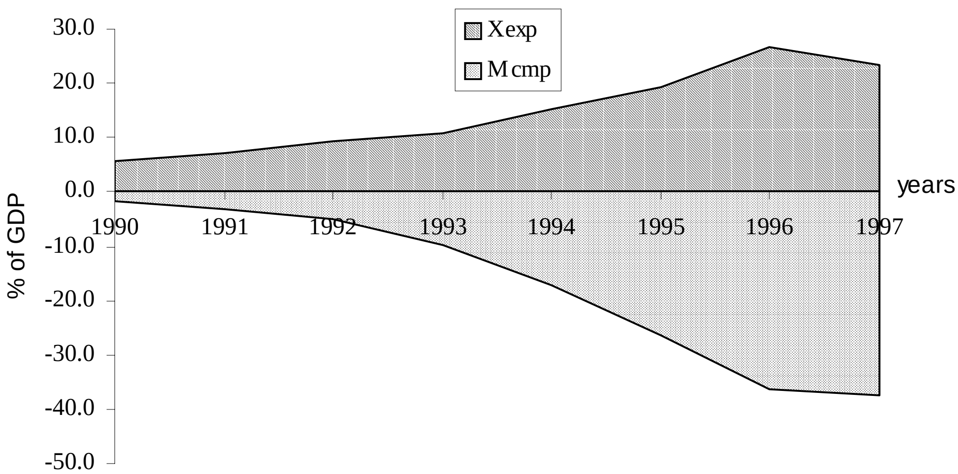

Figure 11:

Viet Nam: Indices of the Real Exchange Rate
and the Trade Balance in GDP, 1986-1997